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July 17, 2015

The Honorable Orrin G. Hatch
Chairman
Committee on Finance
United States Senate
219 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Ron Wyden
Ranking Member
Committee on Finance
United States Senate
219 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Hatch and Ranking Member Wyden

The HRSA 340B Drug Pricing Program requires drug manufacturers to sell nearly all outpatient drugs to eligible health care organizations/covered entities at significantly reduced prices, typically safety net providers. Provider eligibility is statutorily defined to include HRSA-supported health centers and look-alikes, Ryan White clinics and State AIDS Drug Assistance programs, Medicare/Medicaid Disproportionate Share Hospitals, children's hospitals, and other safety net providers. I strongly support safety net providers and the goal of the 340B program. However, I believe we must always be vigilant in our oversight of the mechanisms used to support safety net providers.

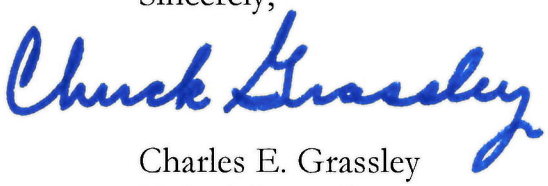
The Government Accountability Office (GAO) was asked to review hospital participation in the 340B program and Medicare programs by comparing 340B hospitals with non-340B hospitals in terms of finance and other relevant characteristics. The GAO found that, in 2012, 340B disproportionate share hospitals spent an average of $144 per beneficiary, compared to just $60 at non-340B hospitals. The differences were not explained by hospital characteristics nor by patients' health

status. Additionally, 340B DSH hospitals had higher Medicare margins compared to non-340B hospitals even though they were generally larger and had lower total facility margins. Lastly, there was a 20% increase in covered entities participating in the program from 2008 to 2012, and approximately half of the increase was among entities that became eligible for the program based on expanded eligibility criteria enacted by the ACA. This program was intended to extend the Medicaid drug discount to the most vulnerable of patients, a significant number of 340B DSH hospitals provided low amounts of charity and uncompensated care.

While the 340B program requires drug manufacturers to sell the products at discounted prices, CMS uses a statutorily defined formula to pay hospitals for drugs at set rates regardless of hospitals' costs for acquiring the drugs. Therefore, the report concludes, there is a financial incentive at hospitals participating in the program to maximize revenue through the difference between the cost of the drug and Medicare's reimbursement by prescribing either more drugs or more expensive drugs to beneficiaries. This unnecessary spending has negative implications for the Medicare program as well as leading to increased cost-sharing and higher part B premiums for beneficiaries. The GAO recommends that Congress consider eliminating the "**incentive to prescribe more drugs or more expensive drugs than necessary to treat Medicare Part B beneficiaries at 340B hospitals.**"

This subject matter clearly falls within the Senate Committee on Finance's Medicare Parts A and B jurisdiction. Thus, I would like to respectfully request a committee hearing on the 340B program. Thank you for your consideration.

Sincerely,



Charles E. Grassley
United States Senator